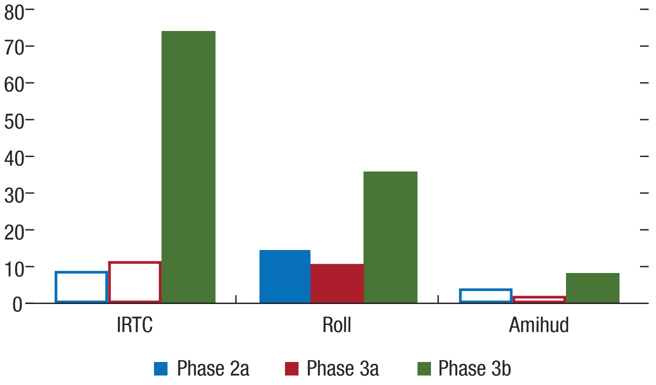
Figure 2.7. Regulation and Market Liquidity: Two Examples

Enhanced posttrade transparency, in some cases, improves market liquidity.

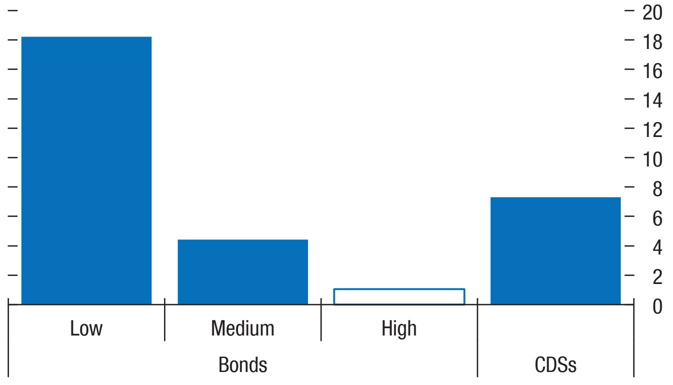
1. Liquidity Improves with Transparency
(Percent improvement in liquidity measure)



Note: The figure shows estimated change in liquidity three months before and after trade dissemination. Dissemination dates are March 3, 2003 (phase 2a); April 14, 2003 (phase 2b, not shown); October 1, 2004 (phase 3a); and February 7, 2005 (phase 3b). A positive value means improved liquidity. Solid columns mean statistical significance at least at the 10 percent level. See Annex 2.2 for details. Amihud = Amihud's (2002) price impact; IRTC =imputed round-trip cost; Roll = Roll's (1984) price reversal.

The European sovereign CDS ban was followed by a deterioration in the liquidity of EU sovereign CDSs and bonds.

2. Decrease in Liquidity due to EU Uncovered CDS Ban
(Percent deterioration in liquidity)



Note: The figure shows the estimated deterioration in liquidity in sovereign bonds and sovereign CDS contracts that can be attributed to the EU ban on uncovered CDS on EU sovereign debt. The effect for bonds is broken down according to the credit risk of the issuer: low, medium, and high signify CDS spreads around the 25th, 50th, and 75th percentiles. Solid columns mean statistical significance at least at the 10 percent level. See Annex 2.2 for details. CDS = credit default swap.

Sources: FINRA Trade Reporting and Compliance Engine; Markit; and IMF staff estimations.